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SUBJECT: WAITING ON BAGHDAD; KRG SHARES ECONOMIC VISION AND EXPRESSES FRUSTRATION WITH THE NATIONAL GOVERNMENT DURING RECENT BUSINESS SUMMIT

¶1. (SBU) Summary: Accompanying a U.S. Chamber of Commerce delegation during a February 3-4 visit to Erbil, EMIN met with Kurdistan Regional Government (KRG) officials to discuss private sector development in Iraq and underscore the importance of transparency and the rule of law. KRG PM Neschervan Barzani expressed the KRG's desire to tap western expertise and assistance in developing the KRG economy, and outlined the KRG's focus on attracting foreign direct investment (FDI) and developing the KRG's agriculture sector in the coming year. Expressing frustration with the national government on the slow progress of national economic issues, KRG officials repeatedly mentioned that "Kurdistan is the gateway to Iraq" and that on national economic issues, the KRG was tired of "waiting on Baghdad." U.S. businessmen highlighted the need for greater transparency and a functioning independent judiciary to address contract, trade and business concerns. End Summary.

All on Message

¶2. (SBU) Accompanying a U.S. Chamber of Commerce delegation during a February 3-4 visit to Erbil, EMIN met with Kurdistan Regional Government (KRG) officials to discuss private sector development in Iraq and underscore the importance of transparency and the rule of law.

¶3. (SBU) During the meetings, KRG PM Neschervan Barzani, Acting Deputy Minister of Finance Bayiz Talibani, Minister of Planning Osman Shwani, and Minister of Trade Muhammad Rauf all echoed the same messages:

-- The KRG views its region as the "gateway to Iraq," and a stepping stone for international investment into Iraq as a whole. In their view, the Kurdistan region is ahead of the rest of Iraq in creating an investor friendly climate.

-- The KRG is "ready for help." Officials clearly communicated their desire that the KRG benefit from Western business expertise. As an example, PM Barzani touted the KRG's recent initiative to hire Price Waterhouse Coopers to conduct an internal KRG study to improve and modernize its procurement, budgeting, and financial reporting practices.

-- The KRG is tired of "waiting on Baghdad" to catch up with them on economic development initiatives. KRG officials, frustration with the progress of the GOI was palpable concerning issues such as perceived Baghdad intransigence on the hydrocarbons law, and lack of progress on investment regulations that promote foreign investment.

-- The KRG will focus on developing its agricultural sector in 2009. Highlighting its successes in public infrastructure over the past 3-5 years, Minister of Trade Muhammad Rauf announced that 2009 would now be the "Year of Agriculture." Citing public frustration with the perceived low cost and low quality of agriculture imports (largely from Iran and from China, via Iran), Rauf announced plans for a KRG hosted

Agricultural Conference in early March that would highlight public and private efforts to invest in Iraqi agriculture and help 'brand' Iraqi quality products.

Planning Priorities

¶4. (U) Minister of Planning (MOP) Osman Shwani and his staff provided a comprehensive overview of the KRG economic vision.

Shwani noted the KRG's improved relationship with Turkey, describing it as a "strategic partner" in its current economic growth. He also relayed his ministry's priorities in making progress on land registry, increased cooperation between the national and provincial investment councils, and continued development of the banking sector. Shwani further stressed the importance of IOs such as the World Bank and the IMF in helping build efficient and transparent financial structures, and noted that his two highest priorities within MOP were public administration reform and the promotion of investment in the KRG writ large.

Private Sector Concerns

¶5. (SBU) In meetings with KRG officials, US Chamber delegation members (including Hunt Oil, Raytheon, Marshall Fund, BAE systems, and Vulcan Power), expressed support for the U.S.-Iraqi business relationship and thanked KRG officials for their continued support of a business-friendly investment climate. As an honorary member of the delegation, KRG Representative to the U.S. Qubad Talabany (son of KRG President Jalal Talabani) echoed the Chamber's concerns

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about the negative impact that slow U.S. visa processing was having on business and sought a change to the U.S. Travel Advisory to recognize KRG and other regions that were safer than the rest of the country.

¶6. (SBU) In an RRT arranged meeting with American and international businesses in the region, revealed operational difficulties in the KR. In addition to routine "facilitation fees," one investor described the practice of obliging businesses to allow KRG companies to take equity stakes in companies (usually affiliated with either the Barzani or Talabani clan), as a more sophisticated, shakedown. Others mentioned the KRG's inefficient bureaucracy that "never does something the same way twice," and general concern over the professionalism and independence of the KRG judiciary. In short, while many private investors feel that the potential rewards to doing business in the KRG are great, the risks associated remained relatively high as well.

¶7. (U) Also of note, the local independent newspaper Hawlati conducted an exclusive interview with EMIN on 4 February and published the interview on 8 February. In it, Hawlati accurately conveyed EMIN's comments on the economic progress that the KRG has fostered and the importance of a diverse and transparent private sector.

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